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Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries

Report of the Second Committee*

Rapporteur: Mr. Ahmed **Amaziane** (Morocco)

I. Introduction

1. The Second Committee held a substantive debate on agenda item 92 (see A/55/579, para. 2). Action on sub-item (e) was taken at the 13th and 38th meetings, on 12 October and 29 November 2000. An account of the Committee's consideration of the sub-item is contained in the relevant summary records (A/C.2/55/SR.13 and 38).

II. Consideration of draft resolutions A/C.2/55/L. 2 and A/C.2/55/L.41

2. At the 13th meeting, on 12 October, the representative of Nigeria, on behalf of the States Members of the United Nations that are members of the Group of 77, China and Mexico, introduced a draft resolution entitled "Towards a new international financial architecture, responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity" (A/C.2/55/L.2), which read:

> "*The General Assembly,*
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> "*Reaffirming* its resolution 54/197 of 22 December 1999 entitled "Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries",

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"*Recalling* the United Nations Millennium Declaration adopted by the Heads of State and Government on 8 September 2000, in particular paragraphs 11 to 14, 16 and 30,

"*Taking note* of the high-level regional consultative meeting on financing for development held at Jakarta from 2 to 5 August 2000, which addressed issues relating to the identification of measures towards a more stable and predictable international financial system that is responsive to the challenges of development, from the regional perspective, in order to contribute to the preparatory process for the high-level international intergovernmental event on financing for development,

"*Emphasizing* the importance of mobilizing in a coherent manner all sources available for the provision of international financing for development, inter alia, private capital flows, official development assistance, market access for goods and services from developing countries and external debt relief,

"*Regretting* that net financial flows to developing countries continued in 1999 the contraction that had begun with the onset of the financial crisis in 1997, and the continued marginalization of the least developed countries from private capital flows,

"*Emphasizing* the importance of long-term investment flows, in particular foreign direct investment, to all developing countries as well as the need for international cooperation to promote the mobilization of new and additional capital for development,

"*Concerned* about the excessive volatility of short-term speculative capital flows and the contagion effects of the behaviour of financial markets in time of crises,

"*Deeply concerned* by the low levels of official development assistance,

"*Stressing* the need for increased access to markets for goods and services that are of export interest to developing countries,

"*Emphasizing* the importance of finding a durable solution to the problem of developing countries in meeting their external debt and debt-servicing obligations,

"*Encouraging* the efforts to enhance the stabilizing role of regional and subregional financial institutions and arrangements in supporting the management of monetary and financial issues,

"*Underlining* the urgent need to continue to work on a wide range of reforms for a strengthened and more stable international financial system with a view to enabling it to deal more effectively and in a timely manner with the new challenges of development in the context of global financial integration,

"*Stressing* that the process of reform for a new international financial architecture should be based on broad participation, involving all members of the international community, to ensure that the diverse needs and interest of all countries are adequately represented,

"*Reaffirming* that the United Nations, in fulfilling its role in the promotion of development, in particular of developing countries, plays an

important role in the international efforts to build up the necessary international consensus for the reforms needed for a new international financial architecture,

"*Noting* that the high-level international intergovernmental event on financing for development provides a unique opportunity to consider in an integrated manner all sources of financing for development, and mindful that in the Millennium Declaration the Heads of State and Government decided to make every effort to ensure its success,

"1. *Welcomes* the report of the Secretary-General entitled "Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries", the addendum thereto on regional perspectives and developments provided by the regional commissions and the addendum thereto provided by the United Nations Conference on Trade and Development on the work it has undertaken on the involvement of the private sector in the prevention and resolution on financial crisis;

"2. *Underlines* the utmost importance of implementing the resolve in the Millennium Declaration to create an environment — at the national and global levels alike — which is conducive to development and to the elimination of poverty, inter alia, through good governance within each country, as well as good governance at the international level and transparency in the financial, monetary and trading systems;

"3. *Also underlines* the utmost importance of implementing the commitment in the Millennium Declaration to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system;

"4. *Stresses* the special importance of having an enabling international economic environment through strong cooperative efforts by all countries and institutions to promote equitable economic development in the world economy, and in this context invites developed countries, in particular major industrialized countries, which have significant weight in influencing world economic growth, when formulating their macroeconomic policies, to take into account their effects in terms of the external economic environment favourable to growth and development, in particular of developing countries;

"5. *Reiterates* the urgent need of accelerating the growth and development prospects of the least developed countries, which remain the poorest and most vulnerable of the international community, and calls upon industrialized countries to facilitate the financing of their development, inter alia, through public and private financial flows, increased official development assistance, strengthened debt relief, and the provision of full market access to their exports and enhanced balance-of-payments support;

"6. *Recognizes* the stability of the international financial system as an important global public good and a necessary condition for positive financial flows for development and, in this context, calls upon major industrialized countries, whose policies have significant impact on most economies, to adopt and pursue policies, including exchange rates policy coordination, with particular attention to the coherence of their policies with global objectives and priorities, as well as to the needs of international financial stability and the importance of facilitating international financial flows for the development of

developing countries, and requests the United Nations Development Programme to provide information to the General Assembly at its fifty-sixth session about the analysis it has undertaken of international financial stability as a global public good;

"7. *Emphasizes* in this regard the need to continue national, regional and international efforts to promote international financial stability and, to this end, to improve early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner, taking a comprehensive and long-term perspective while remaining responsive to the challenges of development and the protection of the most vulnerable countries and social groups;

"8. *Stresses* the importance of strong domestic institutions to promote financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the financial and banking sectors, including improving measures in destination and source countries to reduce the risks of excessive international financial volatility and measures to ensure orderly, gradual and well-sequenced capital account liberalization processes;

"9. *Emphasizes* the importance of deepening the convergence of the efforts of all international institutions able to contribute to the strengthening of the international financial architecture, particularly in regard to the preparatory process for the high-level international intergovernmental event on financing for development;

"10. *Underlines* the need for broadening and strengthening the participation of developing countries in the international economic decision-making and norm-setting processes, in order to promote more efficient international financial institutions and arrangements in which all relevant interests can be effectively represented;

"11. *Emphasizes* the importance of the increased participation of developing countries in the work of the international institutions dealing with the reform of the international financial architecture, in particular the International Monetary Fund, as well as the Financial Stability Forum and the relevant committees affiliated with the Bank for International Settlements, and in this regard encourages the efforts of those institutions to give more representation to developing countries and welcomes the work being undertaken by the International Monetary Fund to design a quota formula that better reflects current economic realities;

"12. *Expresses* the need for multilateral surveillance by the International Monetary Fund and regional and subregional institutions of all countries in a symmetrical manner, in particular enhanced surveillance by the Fund of major industrialized countries because their macroeconomic policies affect the growth of world trade and international financial flows, and may be the source of systemic shocks and vulnerabilities;

"13. *Emphasizes* that the international financial institutions, in providing policy advice and supporting adjustment programmes, should ensure that they are sensitive to the specific circumstances and implementing capacities of concerned countries and to the special needs of developing countries, and

should work towards the best possible outcomes in terms of growth and development, including employment and poverty eradication, and that their conditionality should not include issues which by their very nature should be decided by national authorities, based on broad social consensus and, in this context, requests the International Labour Organization, within its mandate, to provide information to the General Assembly at its fifty-sixth session about the work it has undertaken on the social impact of the financial crisis and, in particular, the consequences of the adjustment programmes on employment;

"14. *Underlines* the need for adequate resources at the subregional, regional and international levels to provide emergency financing in a timely manner to countries affected by financial crisis, in particular access to adequate supplementary liquidity by the International Monetary Fund;

"15. *Reiterates* the need to develop further early warning capacities to address in a timely manner the threat of financial crisis, and in this regard encourages the International Monetary Fund and other relevant international and regional institutions to continue their efforts to contribute to this process;

"16. *Calls upon* the international community, in particular the World Bank and the regional development banks, and other relevant international and regional institutions, including the regional commissions, working with the private sector, to promote long-term private financial flows, especially foreign direct investments, including through enhanced technical cooperation, to all developing countries, in particular the least developed countries and other developing countries with special difficulties in attracting private financial flows, including those in Africa, small island developing countries, and land-locked and transit developing countries, and, in this context, requests the United Nations Conference on Trade and Development to report on this matter to the General Assembly at its fifty-sixth session;

"17. *Encourages* national, regional and international efforts to improve the institutional framework in which financial markets operate and to minimize the negative impacts of the excessive volatility of global financial flows, and, in this context, reiterates the need to consider the establishment of regulatory frameworks for short-term capital flows and trade in currencies;

"18. *Emphasizes* that it is important for sovereign risk assessments made by private sector agencies to be based on strict, objective and transparent parameters and, in this regard, invites the relevant national, regional and international regulatory bodies to consider ways and means to facilitate an adequate oversight of the work of such agencies;

"19. *Reaffirms* the need to consider appropriate frameworks for the involvement of the private sector in the prevention and resolution of financial crisis and underscores the importance of a more equitable distribution of the cost of adjustments between the public and private sectors and among debtors, creditors and investors, in particular concerning highly leveraged operations, and, in this regard, requests the United Nations Conference on Trade and Development to make available to the General Assembly at its fifty-sixth session further information on international efforts to consider debt standstill arrangements;

"20. *Emphasizes* the important supportive role that stronger regional and subregional financial institutions and arrangements can play in the reform of the international financial architecture and the enhancement of financing for development, and in this regard requests the Secretary-General to continue supporting, inter alia, through collaboration with the regional commissions and regional and subregional initiatives, the ongoing work on the identification of measures to strengthening those institutions and arrangements and contributing to a more stable and predictable international financial system that is responsive to the challenges of development, in particular of developing countries, and requests the Secretary-General to make available the results of those exercises to the General Assembly at its fifty-sixth session;

"21. *Encourages* the deepening of the dialogue between the Economic and Social Council and the Bretton Woods institutions, and in this regard recommends that their next high-level meeting consider the modalities needed to further consolidate a broader global agenda for a new international financial architecture, responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity in the global economy, in order to contribute to the preparatory process for the high-level international intergovernmental event on financing for development;

"22. *Requests* the Secretary-General to make the present resolution available to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development, at its second substantive session, as an input for its work on the systemic issues contained in its preliminary substantive agenda;

"23. *Also requests* the Secretary-General, in close cooperation with all relevant entities of the United Nations, including the United Nations Conference on Trade and Development and the regional commissions, in consultation with the Bretton Woods institutions, and taking into account the progress made at the high-level international intergovernmental event on financing for development, to report to the General Assembly at its fifty-sixth session on the implementation of the present resolution under a sub-item entitled 'International financial architecture and development, including net transfer of resources between developing and developed countries', with an analysis of the current trend in global financial flows and recommendations to further consolidate a broader global agenda for a new international financial architecture that is responsive to the priorities of growth and development, in particular of developing countries, and to the promotion of economic and social equity in the global economy;

"24. *Requests* the President of the General Assembly to submit the present resolution to the Board of Executive Directors of the World Bank and the Executive Board of the International Monetary Fund, before their spring joint annual meeting, in order to bring it to their attention as an input to their discussions on the matters addressed herein."

3. At the 38th meeting, on 29 November, the Vice-Chairman of the Committee, Mauricio Escanero (Mexico), introduced a draft resolution entitled "Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the

promotion of economic and social equity" (A/C.2/55/L.41), which he submitted on the basis of informal consultations held on draft resolution A/C.2/55/L.2.

4. In introducing the draft resolution, the Vice-Chairman orally revised the draft resolution as follows:

(a) In operative paragraph 19, after the words "including those in Africa" the words "small island developing countries, and landlocked and transit developing countries" were replaced by the words "as well as the small island developing countries";

(b) In operative paragraph 27, the words "transmit the present resolution" were replaced by the words "to present this resolution".

5. At the same meeting, the Committee adopted draft resolution A/C.2/55/L.41, as orally revised (see para. 8 below).

6. In the light of the adoption of draft resolution A/C.2/55/L.41, draft resolution A/C.2/55/L.2 was withdrawn by its sponsors.

7. After the adoption of the draft resolution, statements were made by the representatives of Chile, the Lao People's Democratic Republic (on behalf of the landlocked developing countries) and Indonesia (see A/C.2/55/SR.38).

III. Recommendation of the Second Committee

8. The Second Committee recommends to the General Assembly the adoption of the following draft resolution:

Towards a strengthened and stable international financial architecture responsive to the priorities of growth and development, especially in developing countries, and to the promotion of economic and social equity

The General Assembly,

Recalling its resolution 54/197 of 22 December 1999, entitled "Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries",

Recalling also the United Nations Millennium Declaration[1] adopted by the heads of State and Government on 8 September 2000,

Taking note of the high-level regional meetings on financing for development held at Jakarta from 2 to 5 August 2000, Bogotá on 9 and 10 November 2000, Addis Ababa from 21 to 23 November 2000, Beirut on 23 and 24 November 2000 and Geneva on 6 and 7 December 2000, which addressed issues of, inter alia, domestic resources mobilization, external private flows, reform of the international financial architecture, regional cooperation and collaboration, innovative sources of financing and issues relating to the external sector, including official development assistance and trade, from the regional perspective, in order to contribute to the preparatory

[1] Resolution 55/2.

process for the high-level international intergovernmental event on financing for development,

Emphasizing the importance of mobilizing in a coherent manner all sources available for the provision of financing for development, inter alia, domestic resources, international private capital flows, official development assistance, market access for goods and services from developing countries and external debt relief, and emphasizing also the importance of utilizing those resources in an efficient way,

Expressing concern that net financial flows to developing countries continued in 1999 the contraction that had begun with the onset of the financial crisis in 1997, and regretting the continued marginalization of the least developed countries from private capital flows,

Emphasizing the importance of long-term investment flows, in particular foreign direct investment, in complementing the development efforts of all developing countries as well as economies in transition and the need for all countries to develop stable access to private capital and for regional and international cooperation to promote the mobilization of new and additional capital for development,

Concerned about the excessive volatility of speculative short-term capital flows and the contagion effects in financial markets in time of crisis,

Deeply concerned by the low levels of official development assistance,

Stressing the need for increased access to markets, in particular for goods and services that are of export interest to developing countries, inter alia, through multilateral trade negotiations,

Emphasizing the importance of finding a durable solution for those developing countries that have difficulties in meeting their external debt and debt-servicing obligations,

Encouraging the efforts to enhance the stabilizing role of regional and subregional financial institutions and arrangements in supporting the management of monetary and financial issues,

Underlining the urgent need to continue to work on a wide range of reforms for a strengthened and more stable international financial system with a view to enabling it to deal more effectively and in a timely manner with the new challenges of development in the context of global financial integration,

Stressing that the process of reform for a strengthened and stable international financial architecture should be based on broad participation in a genuine multilateral approach, involving all members of the international community, to ensure that the diverse needs and interests of all countries are adequately represented,

Reaffirming that the United Nations, in fulfilling its role in the promotion of development, in particular of developing countries, plays an important role in the international efforts to build up the necessary international consensus for the reforms needed for a strengthened and stable international financial system, taking into account the mandate of all relevant international institutions, especially the international financial institutions,

Noting that the high-level international intergovernmental event on financing for development will provide a unique opportunity to consider in an integrated manner all sources of financing for development, and mindful that in the United Nations Millennium Declaration the heads of State and Government decided to make every effort to ensure its success,

1. *Takes note with appreciation* of the report of the Secretary-General entitled "Towards a stable international financial system, responsive to the challenges of development, especially in the developing countries",[2] the addendum thereto on regional perspectives and developments provided by the regional commissions[3] and the addendum thereto provided by the United Nations Conference on Trade and Development on the work it has undertaken on the involvement of the private sector in the prevention and resolution of financial crisis;[4]

2. *Underlines* the utmost importance of implementing the resolve expressed in the United Nations Millennium Declaration[1] to create an environment — at the national and global levels alike — that is conducive to development and to the elimination of poverty, inter alia, through good governance within each country, as well as good governance at the international level and transparency in the financial, monetary and trading systems;

3. *Also underlines* the utmost importance of implementing the commitment in the United Nations Millennium Declaration to an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system;

4. *Stresses* the special importance of creating an enabling international economic environment through strong cooperative efforts by all countries and institutions to promote equitable economic development in a world economy that benefits all people, and, in this context, invites developed countries, in particular major industrialized countries, which have significant weight in influencing world economic growth, when formulating their macroeconomic policies, to take into account their effects in terms of the external economic environment favourable to growth and development, in particular of developing countries;

5. *Also stresses* the special importance of creating an enabling domestic environment through, inter alia, the rule of law, capacity-building, including institutional capacity-building, and the implementation of appropriate economic and social policies, so that domestic and international resources may be effectively mobilized and used for development;

6. *Reiterates* the urgent need to accelerate the growth and development prospects of the least developed countries, which remain the poorest and most vulnerable of the international community, and calls upon development partners, in particular industrialized countries, to facilitate the financing of their development, inter alia, through public and private financial flows, increased official development assistance, strengthened debt relief, the adoption of a policy of duty- and quota-free access for essentially all of their exports and enhanced balance-of-payments support, and in this context welcomes the holding at Brussels in May 2001 of the Third United Nations Conference on the Least Developed Countries;

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[2] A/55/187.

[3] A/55/187/Add.1.

[4] A/55/187/Add.2.

7. *Recognizes* the stability of the international financial system as an important global public good and a necessary condition for positive financial flows for development and, in this context, calls upon all countries, including major industrialized countries, whose policies have significant impact on most economies, to adopt and pursue policies that promote international financial stability and facilitate financial flows for development, and requests the Secretary-General, in collaboration with the United Nations Development Programme, to provide information to the General Assembly at its fifty-sixth session on the analysis it has undertaken of international financial stability as a global public good;

8. *Emphasizes* in this regard the need to continue national, regional and international efforts to promote international financial stability and, to this end, to improve surveillance, early warning, prevention and response capabilities for dealing with the emergence and spread of financial crises in a timely manner, taking a comprehensive and long-term perspective while remaining responsive to the challenges of development and the protection of the most vulnerable countries and social groups;

9. *Stresses* the importance of strong domestic institutions to promote financial stability for the achievement of growth and development, inter alia, through sound macroeconomic policies and policies aimed at strengthening the regulatory systems of the financial and banking sectors, including considering arrangements in destination and source countries to reduce the risks of excessive international financial volatility and measures to ensure orderly, gradual and well-sequenced capital-account liberalization processes, and invites in this connection all relevant international institutions to continue to provide, upon the request of concerned countries, policy advice and technical assistance so as to strengthen their capacity in the above-mentioned areas;

10. *Emphasizes* the importance of deepening the convergence of the efforts of all international institutions able to contribute to the strengthening of an international financial architecture that is responsive to the priorities of growth and development, in particular of developing countries, and to the promotion of economic and social equity;

11. *Reiterates* the need for broadening and strengthening the participation of developing countries in the international economic decision-making process;

12. *Emphasizes* the importance of the improved participation of developing countries in the work of the international institutions dealing with the reform of the international financial architecture, in particular the International Monetary Fund, as well as in relevant norm-setting processes;

13. *Expresses the need* for multilateral surveillance by the International Monetary Fund and regional and subregional institutions of all countries in a symmetrical manner;

14. *Emphasizes* that the international financial institutions, in providing policy advice and supporting adjustment programmes, should ensure that they are sensitive to the specific circumstances and implementing capacities of concerned countries and to the special needs of developing countries, and should work towards the best possible outcomes in terms of growth and development, inter alia, through gender-sensitive employment and poverty eradication policies and strategies, and

stresses the importance of national ownership of programmes supported by the International Monetary Fund for their sustained implementation;

15. *Encourages* the continuing efforts undertaken by the Bretton Woods institutions, the regional development banks and the International Labour Organization to help Governments to address the social consequences of crisis, and welcomes in this regard the commitments made by the General Assembly at its twenty-fourth special session, on the implementation of the outcome of the World Summit for Social Development, to ensure that, when structural adjustment programmes are agreed to, they include social development goals, in particular those of eradicating poverty, promoting full and productive employment and enhancing social integration;

16. *Emphasizes* that the international financial institutions should, when invited by national Governments, provide assistance and advice, as appropriate, to the countries in their efforts to promote development and reduce poverty through national programmes, including, where relevant, nationally owned and developed poverty reduction strategy papers that integrate macroeconomic, structural and social policies;

17. *Underlines* the continuing importance of providing the international institutions, in particular the International Monetary Fund, with adequate resources to provide emergency financing in a timely and accessible manner to countries affected by financial crisis, and notes the regional and subregional efforts to facilitate emergency financing in time of crisis;

18. *Welcomes* the progress made in developing early warning capacities to address in a timely manner the threat of financial crisis, and in this regard encourages the International Monetary Fund and other relevant international and regional institutions to continue their efforts to contribute to this process;

19. *Calls upon* the international community, in particular the World Bank and the regional development banks, and other relevant international and regional institutions, including the regional commissions, working with the private sector, to support the promotion of long-term private financial flows, especially foreign direct investments, inter alia, through enhanced technical cooperation, to all developing countries as well as economies in transition, in particular the least developed countries and other developing countries with special difficulties in attracting private financial flows, including those in Africa, as well as the small island developing countries, and, in this context, requests the United Nations Conference on Trade and Development to provide information to the General Assembly at its fifty-sixth session on the work it will have undertaken on this matter;

20. *Reiterates its invitation* to the International Monetary Fund to facilitate the dialogue among relevant actors to consider the possibility of establishing regulatory frameworks for short-term capital flows and trade in currencies;

21. *Emphasizes* that it is important for sovereign risk assessments made by private sector agencies to be based on objective and transparent parameters;

22. *Reaffirms* the need to consider appropriate frameworks for the involvement of the private sector in the prevention and resolution of financial crisis, including the need to implement and further refine the framework laid down by the International Monetary and Financial Committee at its meeting held on 16 April

2000, and underlines the importance of an equitable distribution of the cost of adjustments between the public and private sectors and among debtors, creditors and investors, concerning, inter alia, highly leveraged operations, as well as the consideration, in exceptional cases, of debt standstill arrangements;

23. *Emphasizes* the important supportive role that stronger regional and subregional financial institutions and arrangements can play in the reform of the international financial system and the enhancement of financing for development;

24. *Encourages* the deepening of the dialogue between the Economic and Social Council and the Bretton Woods institutions, and in this regard recommends that at their next high-level meeting they consider the modalities needed to further consolidate a broader global agenda for a strengthened and stable international financial system that is responsive to the priorities of growth and development, in particular of developing countries, and to the promotion of economic and social equity in the global economy;

25. *Requests* the Secretary-General to make the present resolution available to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development, at its second substantive session, as an input for its work on the systemic issues contained in its preliminary substantive agenda;

26. *Also requests* the Secretary-General, in close cooperation with all relevant entities of the United Nations, including the United Nations Conference on Trade and Development and the regional commissions, within their respective mandates, and in consultation with the Bretton Woods institutions, and taking into account the progress made at the high-level international intergovernmental event on financing for development, to report to the General Assembly at its fifty-sixth session on the implementation of the present resolution under the sub-item entitled "International financial system and development", with an analysis of the current trend in global financial flows, including net transfer of resources between developed and developing countries, and recommendations to further consolidate a broader global agenda for a strengthened and stable international financial system that is responsive to the priorities of growth and development, in particular of developing countries, and to the promotion of economic and social equity in the global economy;

27. *Requests* the President of the General Assembly to present this resolution to the Board of Executive Directors of the World Bank and the Executive Board of the International Monetary Fund, before their joint annual spring meeting, in order to bring it to their attention as an input to their discussions on the matters addressed herein.